

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	CC Docket No. 96-45
Federal State Joint Board On	)	
Universal Service	)	
	)	

**REPLY COMMENTS OF ALLTEL CORPORATION**

ALLTEL Corporation, (“ALLTEL”) hereby submits the following reply comments on the Commission’s Public Notice<sup>1</sup> issued in the above-captioned proceeding released August 16, 2004. In its previous comments in this proceeding, ALLTEL urged the Joint Board to, among other things: (1) continue determining high-cost support at a study area level because to the extent economies of scale exist they are reflected through lower costs per loop; (2) maintain the existing definition of “Rural Telephone Company” because it takes into account a variety of factors reflecting the difference between rural and non-rural carriers; (3) refrain from using a forward-looking methodology for rural carriers until a model that accurately estimates rural costs has been developed and tested; and (4) carefully select the methodology to be used in determining high cost support should the Joint Board decide to base support on forward-looking costs.

ALLTEL reiterates the concerns raised in its initial comments and urges the Joint Board to refrain from making arbitrary changes to high-cost support mechanisms solely to restrain the

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<sup>1</sup> *In the Matter of Federal-State Joint Board on Universal Service Seeks Comment on certain of the Commission’s Rules relating to High-Cost Universal Service*, CC Docket No. 96-45, FCC 04J-2 (released August 16, 2004) (“Notice”)

growth of the fund. Universal service reform must be comprehensive to ensure that universal service support remains specific, sufficient and predictable as required by Section 254 of the Act.

**I. THE JOINT BOARD SHOULD MAINTAIN THE EXISTING DEFINITION OF RURAL TELEPHONE COMPANY.**

Several parties in this proceeding are recommending that carriers meeting certain access line thresholds be transitioned to a forward-looking methodology to determine high-cost support, essentially stripping them of their rural status. For instance, CTIA recommends that all carriers serving more than 50,000 lines in a state or 2.5 million lines nationwide be required to calculate high-cost support based on forward-looking costs.<sup>2</sup> Similarly, Verizon recommends that all mid-size carriers serving more than 100,000 lines in a state be transitioned to the same basis of support as non-rural carriers.<sup>3</sup> Other parties espoused similar line limitations to determine rural eligibility.<sup>4</sup> ALLTEL strenuously disagrees with such proposals because access line counts alone fail to recognize the cost characteristics of such carriers. Congress recognized the complexities facing carriers that serve rural areas when it provided multiple criteria used to redefine a Rural Telephone Company. The Act provides that carriers serving less than a pre-defined number of lines are considered rural, but it also provides that carriers serving primarily communities that are rural in nature also qualify as Rural Telephone Companies.<sup>5</sup> Application of a similar metric to wireless carriers, as OPASTCO has proposed, is equally wrong for the same reasons mentioned above.<sup>6</sup>

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<sup>2</sup> CTIA Comments at 22.

<sup>3</sup> Verizon Comments at 8.

<sup>4</sup> See Nextel Comments at 7. (Supporting the transition to a forward-looking methodology for all carriers exceeding 50,000 lines in a study area or 100,000 lines in a state); see also SureWest Comments at 6. (SureWest supports the proposal in the Notice to differentiate between small, mid-size and large but proposes a variation of the line thresholds).

<sup>5</sup> See 47 U.S.C. §153(37)

<sup>6</sup> See *In the Matter of Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, CC Docket No. 96-45, FCC 04-127 (rel. June 8, 2004) OPASTCO Comments at iv (filed August 6, 2004).

The Joint Board must recognize that line counts alone are not the factor that determines whether a carrier is rural.<sup>7</sup> Should the Joint Board seek to change the metrics associated with the definition of Rural Telephone Company, it should refrain from determining rural status solely on the basis of access lines. A metric or accommodation of metrics that reflect the cost characteristics of the area being served, such as density, must also be included in determining rural status to account for various cost characteristics.<sup>8</sup>

## **II. UNIVERSAL SERVICE REFORM MUST BE COMPREHENSIVE.**

If universal service reform is to be effective, it must be comprehensive and address all universal service issues, including those related to eligibility requirements, basis and methodology of support, portability requirements and the continuous decline of the contribution base. Universal service reform must also take into account any material changes to the universal service programs occasioned by intercarrier compensation reform in order to ensure that universal service fund remains viable and provides the level of support Congress intended when it enacted §254 of the Act.

The Joint Board should refrain from engaging in piecemeal reform of universal service and acknowledge the effects that other proceedings, such as intercarrier compensation, will have on the universal service programs.<sup>9</sup> AT&T and GCI recommend that the Commission's time is better spent implementing the ICF plan currently before the Commission.<sup>10</sup> Although at this

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<sup>7</sup> See SBC Comments at 3.

<sup>8</sup> See ALLTEL Comments at 5.

<sup>9</sup> ALLTEL Comments at 9.

<sup>10</sup> See AT&T Comments at 7; see GCI Comments at 3.

time ALLTEL has not endorsed the ICF plan, ALLTEL agrees that intercarrier compensation reform and universal service reform are interrelated and must be resolved together.<sup>11</sup>

In addition, ALLTEL urges the Joint Board to develop an adequate transition for those carriers affected by sudden changes in high-cost support resulting from universal service reform. In 2000, the basis of support for non-rural carriers changed from embedded costs to forward-looking costs and the Commission implemented a hold-harmless provision as an interim measure to protect customers in high-cost areas from potential rate-shock resulting from sudden, significant reductions in high-cost support.<sup>12</sup> The implementation of a transition plan would also be consistent with intercarrier compensation plans currently before the Commission because all of them include transition features to avoid significant, sudden reductions in intercarrier or universal service revenues. Any recommendations from the Joint Board that result in significant reductions in universal service support should include a transition mechanism to protect rural consumers.

### **III. THE COMMISSION SHOULD CAREFULLY CHOOSE THE METHODOLOGY FOR CALCULATING SUPPORT**

The record clearly shows that a forward-looking model that accurately estimates rural carriers' network costs does not presently exist. However, several parties including ALLTEL, urged the Joint Board to consider carefully the appropriate methodology to be used for calculating high-cost support, should the Joint Board conclude that high-cost support must be determined based on forward-looking costs.<sup>13</sup> ALLTEL cited the findings of the Rural Task Force ("RTF") to show that the impact of applying the existing non-rural methodology, which

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<sup>11</sup> See JSI Comments at 4; see OPASTCO Comments at 25.

<sup>12</sup> See *In the Matter Of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, FCC 99-306, Ninth Report and Order and Eighteenth Order on Reconsideration (released November 2, 1999) at ¶77.

determines high-cost support by comparing state-average costs to national average costs, would result in a reduction in support of \$1.1 billion, or 70% of the total support received by rural carriers.<sup>14</sup> Furthermore, it is not clear that the existing non-rural methodology has distributed support to non-rural carriers efficiently and equitably. As JSI points out, only 10 states qualify for non-rural support and 48% of such support is targeted to one state.<sup>15</sup>

Although ALLTEL is not recommending that the Joint Board modify the basis of support to be based on forward-looking costs, were the Joint Board to decide to do so, it should understand that including the costs of rural carriers will have little or no impact on state averages. Accordingly, a different methodology must be used for rural carriers to prevent significant losses in high-cost support and unwanted impacts to universal service.

#### **IV. CONCLUSION**

Universal service reform must be comprehensive if it is to be effective and must be carefully integrated with intercarrier compensation and other regulatory reform to ensure that modifications in the current proceeding, if any, will not become outdated in the near future.

ALLTEL urges the Joint Board to avoid making rural status determinations based solely on the number of lines served. Line counts alone do not reflect the cost of providing service in high-cost areas. The current definition of Rural Telephone Company set forth in the Act affords carriers serving primarily less densely populated areas to qualify for rural status, recognizing that these carriers will incur higher costs for providing service. This definition should be maintained. The Joint Board should consider the cost characteristics of the area being served in addition to the size of the carrier in determining whether the carrier is rural.

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<sup>13</sup> See ALLTEL Comments at 8; see also GVNW Comments at 8.

<sup>14</sup> Id.

ALLTEL also urges the Joint Board to refrain from applying the non-rural methodology to rural carriers. It is clear that such methodology will be detrimental to rural consumers.

Respectfully submitted,

ALLTEL Corporation

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<sup>15</sup> See JSI Comments at fn. 28.